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ALTERNATIVE SYSTEMS OF EXTERNAL RESOURCES MANAGEMENT
INCLUDING MANAGEMENT OF THE EXTERNAL DEBT

INTRODUCTION

1. In accordance with the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, Africa is committed to providing the necessary framework to launch long-term programmes for self-sustaining socio-economic development and growth. Africa's commitment has, however, been weakened by low domestic savings and low inflows of external resources. ^{1/}

2. As a result of such low resources, many African countries have decided to reduce their budget deficits, reduce and reorient public spending in order to increase domestic savings and improve the methods of mobilizing and allocating scanty external resources. African countries are also trying to improve overall economic management, to increase the efficiency and effectiveness of the public sector, to give greater encouragement to market forces and the private sector and to mobilize domestic and external resources.

3. It appears, however, that despite all the above mentioned efforts and the implementation of economic reforms under the auspices of the International Monetary Fund (IMF) and the World Bank, the domestic savings ratios of African countries have remained very low: ^{2/} a glance at some categories of non-oil exporting countries which include the Sahelian and least developed countries (LDCs) amply illustrates this. Moreover, net external flows did not keep pace with the pattern of financing requirements of African countries mainly because of the increase in debt-servicing payments and the decline in export earnings, direct investments and official development assistance.

4. These combined factors continue to aggravate the financial crisis at a time when monetary and financial issues are proving to be crucial in international relations.

^{1/} See the United Nations Secretary General's report on the Critical Economic Situation in Africa: Mid-term review of the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, doc. A/43/500.

^{2/} ECA Survey of Economic and Social Conditions in Africa 1986-1987, doc. E/ECA/CIL.14/4 table II.4: The savings ratios of the Sahelian countries were the lowest in the world: 1.7 per cent in 1985, 3.4 per cent in 1987 and they are estimated at 4.6 per cent in 1988. See also doc. A/43/500 *op.cit.* "The majority of African countries have adopted policy reforms and structural adjustment measures designed to improve economic performance. Economic performance during 1986-1988 has been disappointing. The gross domestic product (GDP) of the region rose by 0.3 per cent in 1987, per capita income fell by 2.2 per cent in 1987".

5. The present study is therefore part of efforts to assess the current systems of external resources management including management of the external debt. The external debt is included by virtue of the fact that the Priority Programme for Africa's Economic Recovery 1986-1990 that African countries have committed themselves to implementing considered the external debt problem as being the most important aspect of Africa's economic and social crisis.

6. The present document is divided into the following chapters:

- I. Financial flows to Africa.
- II. Evaluation of the impact of external financial resources on Africa's development;
- III. Weaknesses of the current systems of external resources management
- IV. Analysis of other systems of external resources management including management of the external debt.

CHAPTER I: FINANCIAL FLOWS TO AFRICA

A. Domestic savings

7. With the exception of 1987 where estimates seemed to indicate an upward trend (19.3 per cent), the share of Africa's domestic savings in the gross domestic product (GDP) which was 19.8 per cent in 1979 declined during the 1980s. Indeed, as table 1 in the annex shows, trends in the gross domestic savings ratio ^{3/} indicate respective rates of 18.6 and 16.8 per cent during the 1980-1983 and 1983-1985 periods.

8. Such low savings rates are worrisome since Africa's Priority Programme for Economic Recovery 1986-1990 stresses the adoption of bold economic policies with respect to the mobilization of necessary resources to put Africa on the road to dynamic and self-sustaining economic growth. Moreover, African Governments reaffirmed that the development of the continent was their primary responsibility and that national economic policies should give priority to programmes designed with such objectives in mind.

^{3/} Gross domestic savings is the difference between GDP and consumption.

9. Thus, despite their economic difficulties, African Governments committed themselves to raising from their own domestic resources 64.4 per cent of the total of \$US 128.1 billion required way of fresh resources for the period 1986-1990. This is included in Africa's submission with a view to implementing the programme adopted by the special session of the United Nations General Assembly on Africa's Economic and Social Crisis (Doc. E/ECA/LC.I.1/Rev.2 paragraph 100)

6. Outward looking aspect of African economies

10. External resources are linked to transactions with the world economy and are highly dissimilar in nature 4/ They include:

(a) Earnings from the export of goods and services which, in this case, are financial resources obtained from trade with the world economy;

(b) Gifts, bilateral or multilateral official or private loans, received to supplement insufficient domestic savings or, usually, to finance actual or projected imbalances in the balance of payments. In so far as they have to be reimbursed, loans can be considered as advances on export earnings;

(c) Finally foreign capital in the form of direct investments or portfolio investments.

11. Such transactions are very diverse they are the result of the dominant development model propagated by the world economy regardless of their origin. 5/

C. The current volume of external resources

(i) Total flows

12. In terms of 1986 prices and exchange rates, official development assistance from the member countries of the Development Assistance Committee (DAC), the Organization of Petroleum Exporting Countries (OPEC) and multilateral institutions to all African countries which attained the level of \$US 22.5 billion in 1982 dropped to \$US 19.9 billion in 1986, i.e., a decline of nearly \$US 3 billion. As table II shows, the estimates for 1987 indicate a slight improvement to \$US 20.3 billion. In view of the combined effects of inflation and erratic movements in the domestic policies of the developed countries that supply funds it is quite probable that there will be even further declines in the levels of external resources.

4/ See Coneliane: Interdependances et styles de developpement OCDE 1986, pp. 33-44.

5/ The Lagos Plan of Action stressed the need for African countries to rely on their own individual and collective strengths in order to combat such domination.

13. If the external flows to Africa are compared to what is needed to compensate for the sharp decline in export earnings it becomes quite clear that over the past few years developed countries and multilateral institutions have not provided maximum assistance to Africa. Indeed, over the 1981-1985 period, average annual losses in export earnings ^{6/} which were \$US 2.5 billion were offset by total average annual external resource inflows of about \$US 20.7 billion. On the other hand, there was such a considerable increase in losses of export earnings in 1986-1987 that the scanty inflows of assistance were not able to cover the shortfall which amounted to \$US 34.7 billion in 1986 and \$US 33.6 billion 1987. ^{7/}

(ii) Export earnings

14. Export earnings are of crucial importance to African economies but their decline has considerably reduced the region's capacity to cover its imports. Faced with the need to save foreign exchange, many African countries have been forced to reduce their imports and thus slow down their economic growth and reduce the standard of living of their people. Since most African countries are dependent on imported capital goods and production factors, import restrictions have led to the under utilization of existing capacity in the agricultural sector, in industrial sectors in support of agriculture and in other sectors. Export capacity has therefore been reduced and foreign exchange earnings have subsequently declined considerably.

15. This situation has been further aggravated by Africa's heavy dependence on trade in commodities. There is now a problem with respect to export earnings from commodities due to the fact that very few of the commodities are processed, also the commodities trade continues to be influenced by general trends on the world market particularly in the industrialized countries.

16. Arrangements to provide compensatory financing for shortfalls in commodity export earnings such as STABEX and SYSSIN arrangements of the European Economic Community (EEC) and the IMF Compensatory Financing Facility, have proved either insufficient or not adequately accessible. STABEX disbursements rose from \$US 112 million in 1985 to \$US 234 million 1986, but compensation rates in those years have generally been low in relation to the losses of export receipts. Since 1986, IMF has reached agreement with seven African countries to provide \$US 300 million under its Facility. However, access to this Facility which was originally to be quick disbursing and to have minimal conditionality, has become increasingly difficult because it is associated with meeting the adjustment requirements of the IMF.

^{6/} See World Bank: Gains or losses in export earnings are assessed by the formula $X_e = C_i - X_i$.

X_e = Trade earnings

C_i = Capacity to import

X_i = Value of exports expressed in base year prices.

^{7/} The figures are culled from the World Bank contribution to the report of the United Nations Secretary General on the United Nations Programme of Action for African Economic Recovery and Development.

(iii) Other capital flows

17. For Africa as a whole, private flows (lending plus direct investments) fell continuously from \$US 7.3 billion in 1983 to \$US 4.5 billion in 1985, \$US 2.8 billion in 1986 and \$US 2.0 billion in 1987. Net private lending declined in nominal terms by \$US 0.2 billion per year in 1986 and 1987. Although smaller than official flows, private sector financing has occupied an important niche in external resource flows to some African countries and its revival would contribute to their recovery. Direct foreign investment and joint foreign-local enterprises offer the additional advantage of access to management expertise, technology and international markets.

(a) Official development assistance (ODA)

18. The majority of resource flows, excluding export earnings, to Africa are official development finance, predominantly official development assistance (ODA) which traditionally accounts for some 70 per cent of total resources. ODA has been a steady and vital source of funding for Africa and it now accounts for over 73 per cent of net resource flows to the region. Net ODA to sub-Saharan Africa increased in current prices from \$US 11.7 billion in 1986 to \$US 13.3 billion in 1987, however, measured in 1986 prices and exchange rates, it declined in both years.

(b) Bilateral flows

19. The share of sub-Saharan Africa in world-wide bilateral gross disbursements of ODA from DAC donors remained fairly constant at about 22 per cent during the first half of the 1980s, increasing to almost 23 per cent in 1986. Africa's share of bilateral ODA can be expected to increase further in line with measures being undertaken to mobilize resources to support implementation of the Programme of Action.

(c) Multilateral flows

20. The multilateral component of net ODA disbursements (excluding technical assistance grants) to Africa increased by 23 per cent in current dollars in 1986, following an increase of 12 per cent in 1985. In terms of constant prices and exchange rates, the growth of net disbursements in 1986 translates into an increase of about 1 per cent. In 1987, the major multilateral institutions are estimated to have increased their net ODA disbursements by 30 per cent in nominal terms or over 20 per cent at constant price and exchange rates.

(i) World Bank Group

IBRD

21. Gross International Development Association (IDA) disbursements to Africa rose from \$US 0.9 billion in 1985 to \$US 1.2 billion in 1986 and \$US 1.6 billion in 1987. For 1988, programmed commitments of concessional lending are \$US 2.1 billion, an increase of 30 per cent from commitments in 1987. The proportion of IDA funds going to Africa increased from 27 per cent in 1981 to

35 per cent in 1987 and is expected to reach 50 per cent under IDA-8. IDA disbursements to low-income countries in Africa in 1988-1990 may be some \$US 6 to 7.5 billion, about two-thirds above the levels reached in 1985-1987, this will represent a substantial real increase. The share of non-project assistance, which disburses much more rapidly than regular lending, increased from 13 per cent in 1984-1985 to 28 per cent in 1986-1987. In countries with strong economic reform programmes, more than half of IDA lending is quick disbursing. Fifteen African countries are IBRD borrowers, and the general capital increase for the World Bank, which became effective in April 1988, will allow an increase in IBRD lending of 10 per cent per year.

The International Finance Corporation (IFC)

22. During fiscal year 1987, the International Finance Corporation approved loans and equity investments for Africa totalling \$US 130.6 million in 15 countries bringing total ventures held to \$US 575 million. This compares to a total of \$US 480 million in 1986 and 417 million in 1985. In addition, beginning in 1986, the IFC co-sponsored (with UNDP and the African Development Bank) the Africa Project Development Facility to provide advisory services to private entrepreneurs in sub-Saharan Africa to prepare viable projects. The project had disbursed \$US 7.2 million as at October 1987. During the first four years of operation, the Facility is expected to assist in obtaining financing for some 100 projects at an average investment cost of \$US 1 million per project.

(ii) International Monetary Fund

23. The Fund is actively disbursing resources under its SDR 2.7 billion structural adjustment facility (SAF), which was launched in March 1986. It also put in place in December 1987 the SDR 6 billion Enhanced Structural Adjustment Facility (ESAF), bringing total concessional resources for assisting poorer countries, including those in Africa, to SDR 8.7 billion. In addition, other IMF facilities are being adapted to assist African countries that are adopting comprehensive adjustment programmes. By the end of March 1988, the Fund's commitments to African countries amounted to SDR 2.5 billion, compared with SDR 1.1 billion at the end of 1985.

24. In 1986, IMF became a net receiver of funds from African countries, as repayments exceeded drawings by \$US 0.5 billion. Estimates for 1987 show a net outflow of \$0.6 billion. IMF charges increase this outflow further. For sub-Saharan Africa, it is estimated that there was a net transfer of financial resources from Africa to IMF of close to \$0.9 billion in both 1986 and 1987, equivalent to 1.4 per cent of the region's exports of goods and non factor services.

(iii) African Development Bank

25. The trebling from \$US 6.6 billion to \$US 23.0 billion of the authorized capital of the African Development Bank (AfDB) and the 50 per cent increase of \$US 2.9 billion in the concessional resources of the African Development Fund are expected to enable the AfDB group to lend more during 1987-1991 than it did

during the past 20 years. Over 1985-1987, AfDB group loan approvals amounted to \$US 3.8 billion, a 46 per cent increase from the \$2 billion approved during 1984-1985. This indicates a considerable improvement when compared to the average biannual increase in loan approval during 1980-1985. In addition, under the 1987 replenishment, 20 per cent of the technical assistance resources of the Fund will be channelled to the least income countries on grant terms; previously the bulk of such assistance was provided on a loan basis.

(iv) Private Flows

26. Private resources make up a considerable portion of total external flows to Africa. Private flows are mainly attracted by bright trade prospects, a liberal economic climate and political stability in the beneficiary countries. The total volume of private flows to Africa is very low and is declining: from \$US3.7 billion in 1982 it fell to \$2.5 billion in 1987. ^{8/}

27. Conditions of access have been made even more difficult by real interest rates that have attained unmanageable heights ^{9/} aggravating the external debt of African countries. The causes and consequences of this state of affairs have been amply analysed and various proposals have been made in order to ease the debt crisis. ^{10/} Although the various proposals constitute a concerted approach to solving the debt problem, that approach will have to be bolstered up by an increase in resource flows in order to promote the economic recovery and development of the most indebted African countries.

^{8/} See table II.

^{9/} According to IFC's 1987 Year Book and the statistics of the World Bank, real interest rates have attained incredible levels over the past few years. In 1982 they were 24.2 per cent and in 1988 they had risen to 31.0 per cent. Real rates = Nominal interest rates - Annual growth rates of export prices.

^{10/} UNCTAD Resolution 165 (S IX)

ECA: (a) Minutes of Session of the Executive Committee, Arusha, 23-25 October 1978, Doc. E/CN.4/ECG/153; (b) the External Debt of African countries, Doc. E/ECA/TRADE/10

UNCTAD: "Debt management and financial analysis: the UNCTAD Programme"; ECA: "Management of Africa's External Debt: an issue paper by ECA to the high level UN Advisory group on resource flows to Africa." ADB: "Proposal for Refinancing African External Debt," I/T/182; "Task Force on Non-concessional Flows to Developing Countries", Washington, May 1982

OAU: Third Extraordinary Assembly of Heads of State and Government.
African Common Position on Africa's External Debt Crisis.

ECA: Special Memorandum of the ECA Conference of Ministers on Africa's
Economic and Social Crisis. Doc. E/ECA/C.10/37/Rev.2

UNCTAD: Growth, Development Finance and Aid. Costs and benefits of
aid: an empirical analysis. Doc. TD/7/Suppl.10.

P. N. Rosenstein-Rodan: 'Etude sur l'évaluation internationale
indépendante des efforts de développement national. Document prepared for
UNCTAD. Doc. TD 7/Suppl.15.

CHAPTER II: EVALUATION OF THE IMPACT OF EXTERNAL FINANCIAL RESOURCES ON AFRICA'S DEVELOPMENT

28. It is difficult to assess the macro-economic effects of external resource flows. ^{11/} There is a dearth of statistical information and it is difficult to isolate such flows from all the other mechanisms through which the world economy controls national economies ^{12/} on the one hand, and, on the other, the impact of such resources varies very considerably particularly due to the clusters of interests they cater for and the types of domestic reactions they trigger. ^{13/} However, the two approaches below could be used:

A. The theoretical approach

29. Two aspects dominate under this approach. ^{14/} In the first analysis all the growth models are based essentially on the assumption of a fixed capital coefficient and a constant propensity to save. In line with this assumption, the growth models show that the external resources of developing countries attain performances that trigger increases in GDP growth rates. The analyses and simulations made suggest that external flows would supplement domestic savings and trigger an increase in investment rates. In the second analysis, it was noticed that external flows stimulated the marginal propensity to save by increasing per capita income, in other words, this type of model assumes that any increase in external flows is entirely devoted to increasing the investment rate and consequently affects GDP growth.

30. This assumption is contradicted both by the figures in table III and by the performance of African economies. Indeed, all the African countries recorded low GDP growth rates which had very little to do with the rates of external resource flows. Thus, there were changes in external capital flows of 9 per cent in 1984, 5 per cent in 1985, and 16 per cent in 1986.

^{11/} Ch. Comelieu *op.cit.* p.40

^{12/} Andre Crjebine La nouvelle économie internationale. De la crise mondiale au développement autocentre, puf 1986

^{13/} In some countries acute food crisis have triggered the expansion of a considerable flow of external resources but such flows have resulted today in the perpetuation of a social and political system which is created and controlled by the beneficiaries.

^{14/} K.L. Greffin and J.L. Enos: Foreign assistance objectives and consequences. Economic development and culture change, April 1970 pp. 313-337.

31. According to some theories, during an initial development phase external resources can substituted for domestic savings. In such a situation, the external resources increase the capital co-efficient and consequently reduce growth rates. The explanation for this is that projects financed by external capital are generally more capital intensive than those financed by domestic savings.

32. Moreover, a considerable portion of official development assistance funds are channelled into projects which are not directly productive or which have long gestation periods. Observations made during the 1960s on externally financed projects, should that the bulk of external funds went into infrastructural projects such as roads, ports and airports. More recently, after 1975, attention has been accorded to social programmes such as education, housing or physical infrastructure such as irrigation canals and hydroelectric dams. These are projects which do not have a direct impact on GDP.

33. Even if external resources are directly invested in productive activities, they might still have a slight impact on growth especially if they are channelled into capital-intensive industries. Under such circumstances, it can be concluded that the primary effect of external resources is to increase the capital co-efficient and reduce GDP growth rates.

34. From simulations carried out using a system of multiple regressions, it was realized that external resources played an insignificant role in growth when they did not delay it. ^{15/} These findings show that two questions still remain unanswered:

(a) How can the positive or negative effects of external resources considered as additional flows for domestic savings be measured? Or

(b) How can the effects of external resources in discouraging national savings and delaying GDP growth be measured?

B. Empirical evaluation

35. From the comparison of studies undertaken over the past few years ^{16/} and simulations, it can be concluded that the injection of external resources into African economies had only a limited impact on GDP growth. The co-efficients of regression equations (R^2) are not very significant and only 26.5 per cent of GDP growth can be attributable to external resource flows.

^{15/} The ECA Secretariat has tried to examine the extent to which GDP growth depends on external resources the results are in table III. Below is a look at GDP growth expressed in terms of external flows over 10 years:

$R^2 = 0.0009$; D.W.

D.W. 2.0513

T. student 0.07

^{16/} Paul Mosley: Aid Savings and Growth Revisited, Oxford University Bulletin.

36. The same calculations were made on the debt only, they indicated that the debt accounts for only 15.7 per cent of GDP growth while development assistance would barely affect ($R^2 = 0.0009$) GDP formation. It should, however, be noted that the impact of development assistance is growing over time. If the induced effects of development aid ^{17/} is examined after two years, R^2 will be found to have increased to 0.1434 which means that 14.3 per cent of GDP growth is attributable to the injection of development aid evaluated after a time lapse of two years. ^{18/}

37. It follows that external flows cannot be considered as the driving force behind growth. They are rather one of many means of spreading the trickle-drawn effect of world economic growth to African countries and propagating the dominant development model that goes with such growth. ^{19/}

38. External financial resources should not be mistaken for capital. In fact, such resources are not necessarily used to supplement domestic savings. The crucial issue that needs to be solved is that of knowing what such diverse resources are used for. It is not at all evident that external financial resources have contributed to capital formation since some transfers are obviously go into consumption: food aid falls into the latter category and the same holds true for the purchases of several types of equipment which hardly increase the production capacity of countries. ^{20/} This also happens indirectly when external resources are used for speculative purposes or are channelled into pure consumption.

39. Another example is the consequences of external loans that many African countries contracted following the first oil shock. In some African countries, the products of such loans were simply consumed or were merely used to refinance previous debts and this creates a vicious circle of indebtedness. ^{21/} For all the above reasons, it can be said that the best method of financing national development is domestic savings. ^{22/} This is all the more true since external flows have resulted in the current debt crisis, the solutions to the crisis

^{17/} Some authors such as Roger C. Bidell (ibid) feel that it is impossible to infer theoretically or prove empirically that there is a positive or negative relationship between aid and development.

^{18/} These poor performances are attributable to the fact that the estimation of the impact of GDP depends considerably on variables such as projected growth rates, the ability of countries to mobilize their own domestic resources and ability to use such resources and other non-quantifiable political and social variables having to do with the fundamental options of each country.

^{19/} Samir Amin, *L'accumulation à l'échelle mondiale*, Vol. I, collection 10/18.

^{20/} There are examples of countries that have steel rolling mills without having any iron mine, hydroelectric dams without industries that consume the power output, sugar industries that are far too large for the local sugarcane output or roads that lead nowhere financed by repayable external resources.

^{21/} Ch. Commeliau, *op.cit.*, pp. 39-40.

^{22/} ECA: The Strategy for the African Region in the International Development Strategy for the third United Nations Development Decade, Doc. E/CN.14/INF/107/Rev.1.

advocated by the IMF or the World Bank are causing social and cultural upheavals in some of the countries where they are applied.

40. Although an increase in the volume of financial transfers should be promoted, priority should be given to transforming the socio-economic structures of the beneficiary countries to make them more dynamic and enable them to support the growth and economic recovery of the beneficiary countries. This would certainly create a better environment for implementing the various reform measures and bring about a discernible recovery process. It cannot be over emphasised that unless the necessary resources are mobilized taking due account of the importance of adequate domestic savings, African countries will not be able to implement the priority programme for Africa's Economic Recovery and the United Nations Programme of Action for African Economic Recovery and Development. 23/

41. In the light of the foregoing, the resources management framework is of vital importance. Such a framework should be designed on the basis of a global approach that established a relationship between the mobilization of both internal and external resources and the efficient management of the external debt. There is hence an urgent need to take a fresh look at the basic elements of the current framework in order to enhance the expected effects on Africa's recovery, growth prospects and development.

23/ ECA: Beyond Recovery: ECA-Revised Perspectives of Africa's Development, 1988-2008, p.256 (E/ECA/CN.14/31).

CHAPTER III: WEAKNESSES OF THE CURRENT SYSTEMS OF
RESOURCES MANAGEMENT

42. Currently, all external resources are managed on the basis of three systems:

- (a) The systems of the International Monetary Fund, the World Bank and the Club of Creditors;
- (b) The proposals of creditors;
- (c) The positions of African States.

(a) The systems of IMF, the World Bank and club of creditors

43. The common objective of these systems is to provide debt-servicing relief by constantly reminding debtor countries of the need to strictly manage government finance and to balance the accounts of public and parastatal enterprises. The systems that the World Bank and IMF propose emphasise the development of exports in order to increase foreign exchange earnings. Such systems are based on the law of comparative advantages. ^{24/} The problem is whether it is possible to talk about the comparative advantage of minerals, oilseeds, cotton or other agricultural products such as coffee, cocoa, sugar and tropical fruits. All attempts made by African countries to increase exports have resulted in a steady decline in prices.

44. Under such systems, it seems as if the discipline imposed by the donors is wholly geared in the short term to repaying the debt and not to the long-term development of Africa. This has been proved correct in the countries that are today going through the bitter experience of rescheduling their debts under the Paris and London Clubs. Indeed, the sole objective of the agreements is to achieve a balance in public finances in the short term. In the medium and long terms, the rescheduled debt, arrears and current payments, including principal and interests have increased the total amount of the outstanding debt.

45. Another reason for failures is the application of unsuitable economic laws that are useful in a specific economic context. Debt rescheduling and standby agreements are usually accompanied by structural adjustment measures that often have harmful effects. Devaluations are imposed but exports do not necessarily become more competitive for the simple reason that devaluation does not automatically result in a more elastic demand for African export products.

^{24/} R.M. Lombardi: Le Piège bancaire: Dettes et développement, Flammarion 1985, pp. 35-38.

Tariff protection is reduced and whole series of young national industries are endangered. African economies do not react to stimuli in the same manner as those of developed countries.

46. One of the key conditions that the World Bank and IMF put forward for the success of structural adjustment and stabilization programmes in African countries is the availability of adequate external financing to augment foreign exchange resources in the transitional period for immediate import requirements. 25/

47. The management systems of the World Bank and IMF can only have a limited effect in the short term 26/ in that reference is made to some successful experiments in Asia while the specific conditions of African countries might not permit application of such experiments in Africa. 27/

(b) Proposals of Creditors

48. Such proposals are mainly based on debts and endeavour to convert the debt into debt equity swaps. They propose buy back plans. Other propose a debt for export swap. However, such proposals have a number of drawbacks including the following:

- (a) Debt equity swaps might put the capital of African businesses into the hands of transnational banks;
- (b) Buy back plans bring down the balance-sheets of enterprises;
- (c) Debt for export swaps are done at the expense of African countries whose capacity to repay their debts decrease in proportion to the exports used to cover their debts.

(c) The position of African states

49. It is also imperative that the resources management framework 28/ should be envisaged on a comprehensive approach linking together the size of export earnings, inflow of resources especially on concessional terms and the debt service

25/ ECA: The implication of Structural Adjustment and Stabilization Programmes on Long term Growth and Development in African Least Developed Countries. Doc. E/ECA/LDCs.7/Exp.6/4 para. 41.

26/ The World Bank and IMF often highlight the experiences of the new industrialized countries of South-East Asia i.e., South Korea, Taiwan, Singapore and Hong Kong that are highly export-oriented countries and India, a State Continent, which focuses on its domestic market but seldom take into account the factors that destabilize African economies.

27/ Fr. CROUIGNEAU in Le Monde of 17 April 1986, feels that it is the current development models that are being questioned. The debate goes well beyond the financial equation alone.

28/ ECA Africa's Debt Problem: Measurement, Management and Development Implications, Doc. E/ECA/PSD.5/3, para. 50.

obligations. Therefore, the role of the private sector should be fully considered in the debt management strategy. In this context, Africa's Priority Programme for Economic Recovery 1986-1990 and the United Nations Programme for African Economic Recovery and Development 1986-1990, stressed the importance of mobilizing adequate domestic and external financing and of effective management of external debt; this has been clearly stressed in the preceding chapters.

50. However, developed countries oppose Africa's solutions; they refuse to see Africa's social and economic problems in a favourable light. The measures taken by industrialized countries to combat inflation have led to world recession which has depressed demand and made export earnings unstable. ^{29/} This is unfortunate in that a majority of African countries depend on not more than three export commodities, i.e., coffee, cotton and cocoa for the bulk of their foreign exchange earnings which serve as the principal source of external resources for development. Aid, debt relief and direct foreign investments can only supplement trade in this respect. In the African context, and until their economies are sufficiently diversified, trade in commodities must provide the bulk of development resources.

51. The most critical aspects of the methods currently in use in African countries is their inability to identify sources of external resources coupled with the lack of management mechanisms. This is all the more true in that presently, one of the major problems facing African countries is how to establish mechanisms to identify sectors where external resources are required, the type of resources required such as aid, loans and investments and mechanisms for evaluating terms under which such resources are granted. Such mechanisms are vital because external resources are like Trojan horses. They have to be scrutinized carefully because it is always possible that even with apparently affordable terms the mechanisms might include certain commitments which might make resource inflows less effective. Such is the case in particular of aid tied to the purchase of goods and services from the donor countries; the prices of such goods and services are higher than prices on the open market. ^{30/}

52. Another serious problem is the lack of independent banking and financial institutions capable of mobilizing domestic resources for development. Therefore Africa, like all the developing regions, has heavily relied on external financing for a considerable part of its current as well as development expenditure. It is common knowledge that Africa remains heavily dependent on imports the bulk of which can be secured only through foreign exchange. The primary source of such foreign exchange is exports of goods and commodities as well as external resources in the form of aid, loans and investments for development purposes. Such external capital has, however, not permitted the development of export capacity to earn enough revenues to repay the debts.

^{29/} Doc. A/43/500, op.cit. para. 124-125.

^{30/} John PINCUS: Costs and advantages of external aid. Empirical study carried out on behalf of the Secretary-General of UNCTAD, Doc. TD.7/7/Suppl.10.

CHAPTER IV ANALYSIS OF OTHER SYSTEMS OF EXTERNAL RESOURCES
MANAGEMENT INCLUDING DEBT MANAGEMENT

53. It is certainly true that most of the measures that are reviewed under this chapter including the Common African Position on the external debt crisis and many other studies and declarations on the global issue of external resources have already been covered in detail.
54. It is also agreed that there are still many obstacles to the implementation of all such measures hence the importance of convening an international conference on the external debt.
55. It has therefore been found necessary in the course of this analysis to emphasise some of the key ideas of such measures in order to enrich efforts to find ways and means of better understanding and utilizing such management instruments.
56. So far, African countries have been dependent on industrialized market economy countries to provide outlets for their commodities and to supply them with capital equipment and manufactured goods as well as financial resources. Today there are many reasons to believe that such markets might not always be available. Such reasons include the common agricultural policy adopted by the member countries of the European Economic Community, the rapid development of synthetic substitutes for commodities and competition from countries in other developing regions. Moreover, there is no guarantee that commodity prices will not fluctuate again. Also, prospects for restructuring Europe in 1992 will certainly cause inevitable changes in conceptions of economic policies and related behaviour as a whole. Foreign exchange earnings from commodity exports might not increase sufficiently to cover, for example, the level of imports needed for development.
57. Given such an uncertain future, the Lagos Plan of Action represents a development strategy for African countries as it calls for the restructuring of African economies on the basis of national and collective autonomy and self-sustaining development.
58. As far as the growing external debt problem, is concerned, Africa's heavy debt-servicing burden is considered a major obstacle to the economic recovery and accelerated development of the continent. As a result of these facts, in July 1985 Africa's Priority Programme for Economic Recovery 1986-1990 considered that Africa's external debt was the most important aspect of the continent's economic and social crisis. Later on, at their Third Extraordinary Assembly held in Addis Ababa on 30 November and 1 December 1987, the Heads of State and Government of the Organization of African Unity deplored the fact that despite the efforts made by individual States to solve the crisis and despite repeated appeals to the international community, no tangible and lasting solutions had been found.

59. The Common African Position on Africa's external crisis adopted to that effect concluded that a lasting solution to the external debt problem of developing countries could be found only within the framework of global and concomitant measures in the major economic sectors given the interdependence between external debt, external resource flows, development, improvement of the international trading system, better commodity prices and reform of the international monetary system.

60. In order to establish new measures and policies for managing external resources including debt relief, measures that would enhance the repayment capacity of African countries should be given priority. There are several possibilities in this regard:

(a) At the national level

61. The issue here is how to increase domestic savings.

62. Two main arguments are often used to justify the role of government in the savings process ^{31/}. It is often necessary in an environment in which incomes are low that the government should compensate for insufficient levels of private sector savings by the use of taxation and other forms of involuntary savings techniques such as compulsory saving or reductions from incomes and social security or forced savings. Government should be able to employ taxation and the appropriate use of tax resources to act countercyclically.

63. It would therefore be useful to examine taxation in Africa in the framework of the complementarity between public and private savings and therefore, to search for strategies that enable efficient and equitable tax structures to be created which also provide the maximum incentives for national savings mobilization.

64. Such problems and issues form the basic framework within which strategies and mechanisms to mobilize domestic resources should be examined.

65. Moreover, efforts could be made to

(a) exploit prospects of raising the level of savings through taxations that would guarantee expansion in investments without inflationary pressure ^{32/}

^{31/} African Development Bank and Economic Commission for Africa, Economic Report on Africa 1987.

^{32/} Ch. Tcherassouba, Le service de la dette publique extérieure in les Annales africaines, 1987. The author develops a development taxation model that does not have inflationary pressure.

$$\frac{\partial y}{y} = \frac{1}{k} [b(1-a) + a-b]t$$

y = domestic product

k = marginal capital coefficient

b = percentage of individual income saved

a = corresponding rate of taxation

h = proportion of domestic product devoted to public expenditure on goods and services

(b) Establish appropriate institutional mechanisms at the national level responsible for signalling, monitoring and regularly evaluating external resources. This requires that a training programme be urgently designed to give refresher training to senior and intermediate technical and administrative staff of the public services and staff to some national financial and banking institutions in the modern methods of external resources management.

(c) In the particular case of the debt, there is an urgent need to establish efficient systems of debt signalling and monitoring at the national, subregional and regional levels. Currently, such activities are carried out on an ad hoc basis.

(b) At the regional level

66. The following measures should be envisaged: Adoption of appropriate policies and measures for mobilizing domestic resources in order to make Africa more dependent on its own resources to achieve recovery and growth; reduction of inflation and improvement of economic and financial management; improvement of the quality of investments in the public and private sectors; granting of incentives to foreign exchange earning or saving projects; preparation and implementation of programmes for the development and efficient utilization of human resources in order to improve productivity and stimulate scientific and technical development.

67. In debt relief negotiations steps should be taken to push back the adjustment deadline to enable debtor countries to concentrate their efforts on economic development. This would improve the decision-making process at the government level as well as the planning of investment programme in all sectors.

68. Global negotiations should also focus on the policies of industrialized countries that affect the repayment capacity of African countries either because they increase the spending of African countries (interest rates and import prices) or reduce their revenues (export prices and trade barriers).

C. Measures to be applied by developed countries and international financial institutions

Bilateral official loans and publicly-guaranteed loans

69. Creditor countries should take steps to convert a substantial number of past loans into grants, consider accepting repayment of part of the debts in local currency, the terms for granting official loans and publicly-guaranteed loans should be adjusted in line with the terms currently applied to credits of the African Development Fund, non-ODA publicly-guaranteed debts and debt-servicing payments should be converted into long-term low-interest loans.

Multilateral loans

70. Multilateral development financing institutions including the World Bank should increase the net resource flows to African countries at terms commensurate with the economic situation of African countries. priority should be given to sending direct resources to sectoral programmes and to loans other than those

under quick disbursing projects with a view to bringing about recovery and development. IMF should not become a net recipient of resources from Africa but should rather consider rescheduling its credits, establishing an additional funding facility and make its conditionality more flexible to take into account the problems that African countries are facing.

International commercial banks

71. They should make their loan terms more flexible and reduce their interest rates, lengthen maturity, grace and rescheduling periods, they should convert commercial debts into transferable securities with maturities of at least 25 years and at lower interest rates; short-term arrears should be converted into long-term loans.

Reschedulings

72. Rescheduling should provide real debt relief and not merely postpone reimbursement. Negotiations should work on achieving a constant ratio of debt servicing to export earnings; debtor countries could be reasonably expected to devote such a percentage to the servicing of their debts. Should rescheduling prove necessary, multi-year rescheduling of a minimum of 5 years should be the norm with maturities of at least 50 years, grace periods of 10 years and Zero interest rates. Mechanisms should be explored whereby debt-service payments agreed after rescheduling could be applied to effectively address both the principal and the interest, for example, the creation of a redemption fund to amortize the principal; the conditionality of implementation of stabilization programmes with IMF should be removed in order to obtain debt relief from creditors; under debt rescheduling, creditor countries should not require the African debtor countries to adopt measures and economic doctrines that are incompatible with their economic and social systems. Although the standard approach of the Paris Club has made conditions with respect to extending maturity and amortization periods as well as multi-year reschedulings more flexible, it should still be reviewed to prevent the debt and considerable debt-servicing commitments becoming heavier. Moreover, the economic declaration following the Toronto Summit will only have an appreciable impact if substantial reforms are introduced into the Paris Club system whose decisions are still based on case-by-case negotiations.

Resources for development

73. From the analysis of individual country situations, ^{33/} it appears that at current prices, exports of 1986-1990 could at best improve on the performance of the 1980-1982 period by about 25 per cent. ^{34/} This estimate assumes that African countries will adopt policies that promote the expansion of exports and that industrialized countries will not strengthen their protectionist measures.

^{33/} World Bank: Adjustment needs in economic growth in Sub-Saharan Africa 1986-1990, p.49.

^{34/} Ibid. The World Bank estimates export earnings at an average of \$US 20 billion over the 1986-1990 period.

74. Although the United Nations Programme of Action recognized the need to deal urgently with commodity issues, international co-operation has made little progress in this area. During 1986-1987, African non-oil commodity export earnings were only \$US 24 billion per year, about 20 per cent less than in 1985.^{35/} Unless there are profound changes, Africa's long-term development prospects will remain bleak and this will result in a considerable increase in external resources requirements. Hence, some of the following measures could be stressed in order to give the necessary impetus to export earnings and other resources required for development.

75. Developed countries should take action to substantially reduce international interest rates on existing and future loans, stop the net drain of resources from Africa particularly to multilateral institutions such as the World Bank and IMF; raise the eligibility ceiling of loans under IDA to enable more African countries to qualify for IDA resources and ensure that at least 50 per cent of such resources are set aside for assistance to Africa. Contributions under IDA should be fully paid up as soon as possible and the earlier terms of IDA loans should be restored, i.e., a grace period of 10 years and a repayment period of 50 years and a service charge of 0.75 per cent; special drawing rights (SDRs) should be increased to at least 15 billion; IMF conditionality criteria should be substantially eased and any co-ordination between IMF, the World Bank and other multilateral financial institutions should not lead to crossed conditionality; the World Bank should re-establish the Special Facility for Sub-Saharan Africa.

76. The other suggestion is that borrowers should focus on seeking financing in the form of equity investments in order to cover risks and perhaps attract new sources of capital particularly direct foreign investments. It should be noted in passing that direct investments to African countries were very low in 1985 at 1.6 billion, in 1990, they are estimated to be 2.3 billion while in the year 2000 they will still be only 4.5 billion. This is a low growth rate of 7.1 per cent a year.

77. Available data do not make it possible to forecast an increase in direct investments which would be enough to cover Africa's development requirements. Creditor countries would have to reinvest the debt-servicing payments due them in the form of equities either by purchasing treasury bonds of African countries or taking direct shares in African businesses.

78. African countries could, in addition, with the assistance of creditor countries and international financial institutions, issue permanent shares aimed at attracting fresh capital in the form of loans. The old debt would be refinanced in the form of perpetual loans that are periodically quoted on the market.

^{35/} A/43/500 op.cit. para. 124-129

Measures to support least developed countries and other disadvantaged countries in Africa

79. The developed countries should urgently implement the measures provided for under paragraphs 134 to 140 of the Final Act of UNCTAD VII as well as the provisions of resolutions 165(S-IX) of the UNCTAD Trade and Development Board. All assistance to LDCs should be in the form of grants; developed countries should also honour their commitment to give a minimum of 0.15 per cent of their GNP to LDCs, cancel a considerable portion of LDC debt and adopt interest subsidies and refinancing on very concessional terms, delete the cross-default clause used by some donor agencies when a borrower country fails to meet data limits of payment; this clause governs the granting of additional loans.

International Conference on Africa's External Debt

80. Developed creditor countries and international financial institutions should agree that the planned conference is not a confrontation. They should therefore actively support the convening of such a conference which is a sincere attempt to find tangible and lasting solutions to Africa's external debt.

GENERAL CONCLUSIONS

81. At the end of this analysis, it cannot be stated that a lasting solution to the question of formulating guidelines on the management of external resources has been found.

82. This study, which is part of research on the global management of African economies, has used a considerable number of strategies contained in both the Common African Position on the external debt crisis as well as other declarations to try to define an appropriate framework for launching programmes for self-sustaining growth and economic development.

83. This suggestion-rich framework has attempted to use many measures and strategies likely to result in specific studies highlighting, for example, a number of problems such as the problem of interest-rate moratoriums on the consolidation of commercial debt (creditor countries are very divided on this issue and the majority feel that the rates should remain market rates and not become concessional), the problem of controlling the amount of rescheduled debts and simplifications of procedures.

84. Since there are still many economic, technical and administrative constraints to the implementation of the existing framework, the establishment of new management instruments necessarily requires that the best use be made of the suggestions put forward in this study. The suggestions, coupled with specific studies are meant to guide the countries concerned on how to go about improving the mobilization and allocation of the scanty external resources they have at their disposal.

85. Efforts at enhancing the mobilisation and allocation of external resources are vital because although management is the sole responsibility of African governments themselves the nature of the problem considered in the present document is such that the international community must participate and help in finding and implementing measures likely to resolve the crisis. Consequently, the fact that the crisis is still going on proves beyond any doubt that a concerted effort is required at the international level to help African countries to adopt appropriate domestic and external resources management strategies. Sources of financing would have to be identified, foreign exchange earning projects should be selected and carefully designed and debt income should be allocated to critical sectors that promote the economic recovery and self sustaining growth of African countries.

86. The foregoing fully justifies the convening of an international conference on Africa's external debt in so far as it could be a sincere attempt to find concrete and lasting solutions to Africa's external debt crisis. Such solutions should bring about substantial improvements in mobilizing a considerable portion of necessary foreign exchange resources and facilitate the management of such resources in the light of long-term development requirements of African economies.

Table I

Gross domestic savings ratio 1980-1987

(Percentage of GDP)

Africa	1980-1983	1983-1985	1986	1987
Total Africa	18.6	16.8	16.4	19.3
<u>Sub-Saharan Africa</u>	14.5	11.6	11.1	14.3

Source : United Nations doc. A/43/500/Add.1.

Table II
Net resource flows to Africa, 1982-1987
 (Billions of current US dollars)

	1982	1983	1984	1985	1986	1987	a/
<u>Sub-Saharan Africa</u>							
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	10.8	13.6	12.0	11.9	14.9	13.2	
1. Official development assistance (ODA) of which:	9.1	9.0	9.4	10.6	12.9		
Bilateral disbursements	6.6	6.4	6.6	7.3	8.9		
Multilateral disbursements	2.5	2.6	2.8	3.3	4.0		
2. Other ODF of which:	1.7	1.6	2.6	1.3	2.0		
Bilateral disbursements	1.1	0.9	1.8	0.5	1.2		
Multilateral disbursements	0.6	0.7	0.8	0.8	0.8		
II. TOTAL EXPORT CREDITS	1.9	1.5	0.0	0.3	0.4		
1. DAC countries of which: Short-term	1.8	1.4	x	0.7	0.3		
	0.2	0.5	-0.1	0.4	0.6		
2. Other countries	0.1	0.1	x	0.1	0.1		
III. PRIVATE FLOWS	3.7	2.0	0.4	2.2	2.2	2.3	
1. Direct investment (OECD)	1.0	0.8	0.6	0.5	0.7		
2. International bank lending	2.0	0.5	1.0	0.8	0.5		
3. Total bond lending	-	-	-	-	-		
4. Other private	-	-	-	-	-		
5. Grants by non-governmental organizations	0.7	0.7	0.8	0.9	1.0		
Sub-total for sub-Saharan Africa	16.4	14.1	12.4	14.9	17.5	20.5	
<u>North Africa</u>	2.2	2.2	2.4	3.0	2.4	2.4	
<u>Total Africa</u>	18.1	16.3	14.8	17.9	19.9	22.9	

At 1936 prices and exchange rates

Total Africa (b)	22.5	19.3	18.4	22.0	19.9	20.3
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Source: OECD

a/ Preliminary estimates.

(b) ECA calculations

Table III

Results of simulation

<u>Dependent variable</u>		<u>GDP growth</u>	
<u>Variables</u>	<u>Constant</u>	<u>R²</u>	<u>D.F.</u>
1. <u>Debt</u>			
0.013655 (1.06)	-1.56544 (-0.78)	0.1577	2.1333
2. <u>Other flows</u>			
0.020829 (0.07)	0.089405 (0.02)	0.0009	2.0513
3. <u>Export earnings</u>			
-0.063642 (-1.25)	0.346113 (0.52)	0.2071	2.5950

Source: ECA Secretariat/
() T = Student

Table IV

Confidence rating given to some African countries by
international bankers (over 100) September 1987

African rating	Country	World rating	Mark/100	Change over 1 year
1	Algeria	42	43.8	-6.6
2	Cameroon	49	36.7	-1.7
3	Gabon	52	34.5	-5.9
4	Tunisia	53	34.1	-5.6
5	Kenya	62	29.3	0.0
6	Cote d'Ivoire	66	26.5	-0.9
7	Mauritania	69	24.2	-0.6
8	Libyan Arab Jamahiriya	74	22.8	-4.5
9	Morocco	75	22.5	-0.5
10	Zimbabwe	76	21.4	-1.8
11	Nigeria	77	20.8	1.9
12	Senegal	80	18.2	-0.4
13	Malawi	83	16.8	-1.3
14	Congo	85	15.9	0.1
15	Seychelles	91	13.1	0.9
16	Angola	94	11.1	-2.5
17	Liberia	95	10.5	-0.5
18	Zambia	96	10.1	-0.9
19	Zaire	97	9.9	-0.0
20	United Rep. of Tanzania	99	9.4	-1.4
21	Ethiopia	101	8.9	-1.9
22	Sierra Leone	105	6.0	-1.2
23	Sudan	106	5.9	-1.4
24	Uganda	108	5.2	0.1
Average mark of the continent			19.6	-2.0
World mark			39.3	-1.2

Source Institutional Investors

The table shows that there is a close relationship between the confidence that international bankers have in African countries and the respective situations of the countries concerned.



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Lilongwe, (Malawi), 9-13 March 1989

Third Meeting of the Conference of
Ministers of Finance on the African
Framework for Structural Adjustment
Programme

Lilongwe, (Malawi), 15-17 March 1989

PROGRESS TOWARDS THE ESTABLISHMENT OF
THE AFRICAN MONETARY FUND

I. INTRODUCTION

1. This report on Progress towards the establishment of the African Monetary Fund is being presented to the Third Meeting of the Conference of Ministers of Finance pursuant to the ECA Conference of Ministers resolution 541(XXX). The main thrust of the conference is to take a hard and critical look at the performance of the African economies and come up with alternative monetary and financial strategies and solutions to the African crisis within an African framework for structural adjustment programmes.
2. In the field of monetary and financial co-operation, there cannot be any dispute about the need for an African regional institution to assist African countries in working out a general framework or guidelines for responding to both internal and external adverse developments. Today, Africa's destiny appears uncertain and its future precarious. The African monetary Fund, once established, will be an instrument for providing regional monetary integration and regional autonomy in monetary policies.
3. The Lagos Plan of Action and Final Act of Lagos, as adopted by the African Heads of States and Government in April 1980, recognized that the African Monetary Fund would provide a mechanism through which African countries can protect themselves and respond more effectively to the unfavourable international monetary and financial environment. Six years later, the African Heads of State and Government adopted Africa's Priority Programme for Economic Recovery, 1986-1990 (APPER) which inter-alia called for 'strengthening of subregional and regional monetary and financial institutions and in this respect measures should be undertaken for an early establishment of the African Monetary Fund'. Furthermore, in June 1986, the Special Session of the United Nations General Assembly on the Critical Economic Situation in Africa adopted the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD) which also called for the "intensification of efforts for the establishment of an African Monetary Fund".
4. The mandate and political commitment to establish the African Monetary Fund have been given, but action at the technical level has been slow and tedious. A feasibility study which was prepared in 1984 was discussed at three separate meetings of experts from the ministries of finance and central banks. Their recommendations were submitted to the meeting of the Conference of African Ministers of Finance held in Libreville from 18 to 21 June 1986 at which Governors of Central Banks were invited.
5. However, a number of important issues remained to be resolved. The purpose of this brief paper, therefore, is to review these issues as a basis for further discussion, to underline the expected role by which monetary and financial relations can make an effective contribution on effective structural adjustments programmes and to suggest ways of accelerating the establishment of the African Monetary Fund.

II. CONCLUSIONS AND RECOMMENDATIONS OF THE FEASIBILITY STUDY

6. In order to provide a technical basis for the establishment of the African Monetary Fund, a study entitled "The establishment of an African Monetary Fund: Structure and Mechanism" was jointly prepared by experts from the Economic Commission for Africa (ECA), the Organization of African Unity (OAU), the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS) and the African Institute for Economic Development and Planning (IDEP)^{1/}. The study made the following recommendations:

A. Objectives and Functions

7. The African Monetary Fund (AMF) should have the following objectives, which are not exhaustive:

- (i) To contribute to the economic development and social advancement of its member States by evolving an African monetary system which would command the confidence of its members through monetary and financial co-operation at the African regional level, and which would serve as a consultative machinery for encouraging more balanced economic growth in the member States.
- (ii) To assist in providing financing for balance-of-payments support to member States experiencing deficits in their current account balances with a view to correcting such imbalances and safeguarding their economic growth through appropriate policy adjustments which take into account the critical development needs of the member States.
- (iii) To promote stability of the African currencies through appropriate stabilization policies, including exchange rate systems, at the national, subregional and regional levels.
- (iv) To promote the liberalization of exchange control regulations and eventual elimination of payments restrictions among the African countries through the promotion of convertibility of national currencies and acceptable par values and to facilitate the linkage of existing subregional clearing and payments arrangements for the purposes of enhancing intra-African trade and co-operation.

^{1/} United Nations, The Establishment of an African Monetary Fund: Structure and Mechanism (A Technical Feasibility Study), Addis Ababa, 22 January 1985.

- (v) To assist member States in instituting appropriate long-term "economic reformation" and stabilization programmes specifically geared to deal with the African socio-economic crisis arising from long-term effects of balance-of-payments problems and especially geared to capital mobilization and a more rational use of development resources.
- (vi) To provide a machinery for the harmonization of monetary, currency and banking legislation and practices among African countries, harmonize the issue of national currencies, with a view to promoting their convertibility, including the use of a Common Unit of Account and to design mechanisms for overcoming the problems arising from the multiplicity of currencies and currency zones with a view to the eventual establishment of an African common currency.
- (vii) To provide technical assistance and advisory services to member States on fiscal, taxation and budgetary policies and on the development of appropriate domestic and monetary institutions to deal with effective management and utilization of financial resources for socio-economic development.
- (viii) To co-ordinate and harmonize the position of member States in international negotiations on monetary and financial issues so as to maximize their common interests and to contribute more effectively to the solutions of the world's monetary problems.
- (ix) To undertake such other functions and activities as may be provided for in the Articles of Agreement establishing the African Monetary Fund.

B. Resources of the African Monetary Fund

8. The study analysed this question under a number of headings: (a) the identification of resource requirements; (b) the determination of the size of initial authorized capital of the AMF; (c) the general principles governing the allocation of capital subscriptions among members; and (d) other possible sources of funding.

9. The determination of the financial resources of the African Monetary Fund and the size of its initial authorized capital calls for very careful consideration. The success of AMF depends to a large extent on the political commitment and willingness of its members to pay their subscriptions regularly and promptly. An issue constantly borne in mind in this study had been the need to avoid placing too heavy a burden of capital subscription on individual member countries without, of course, unduly limiting the capacity of the Fund to meet the needs of its members. It may be therefore, necessary to establish a "ceiling" and a "floor" for subscriptions. Two options for the initial authorized capital of AMF are considered: US\$3 billion and US\$2 billion. Three sub-options for paid-in capital are given for each. The critical element is that a "trigger" amount of capital must be put at the disposal of the Fund, otherwise its lending operations will be insignificant.

For this amount, the study proposes a sum of US\$1 billion. Of course, operations such as research, technical assistance and advisory services could still be carried out even before the above sum is reached. A second critical issue is whether to open the capital subscriptions to external participation. Depending upon the decision taken, the cash flows of AIF and the subscriptions of the African countries will vary markedly.

10. Regarding the method used to determine the allocation of capital subscription, the study recommends the adoption of one of three proposed formulae, namely (i) a combination of the African Development Bank formula with the International Monetary Fund formula; (ii) a formula based on 60 per cent of adjusted Gross Domestic Product plus 40 per cent of foreign trade, and (iii) adjusted Gross Domestic Product. Individual member subscriptions to initial authorized capital of either US\$3 billion or US\$2 billion have been calculated using each of these formulae.

11. The need is also recognized to augment capital subscriptions from other sources. It is suggested that the management of the Fund should raise additional funds from both concessional and non-concessional loans, accept deposits from African institutions and solicit grants and donations from the international community.

C. Lending Criteria, Policies and Procedures

12. The establishment of the criteria and procedures for lending by AIF is a very complex exercise, because the majority of African countries are not only in need of balance-of-payments support, but also, in the United Nations sense, "least developed". The devastating impact of the wide-spread drought in Africa, which in some cases has brought about permanent changes in economic infrastructure, makes the task harder.

13. Therefore, in setting out the lending policies and procedures of the African Monetary Fund outlined in Chapter IV, the following two considerations were taken as axiomatic:

- (a) Africa's own institutions must have sufficient flexibility in its lending policy to take due cognizance of the problems facing its members in an interdependent world of depressed commodity prices, increasing inflation and interest rates, declining volumes of world trade, increasing protectionist tendencies, mounting external debts and chronic balance-of-payments deficits; it must take special account of the current economic crisis facing the developing African countries;
- (b) The African Monetary Fund must sustain its credibility and the confidence of the international community by adopting sound and prudent lending policies; it must take care not to be portrayed as an institution for "easy credit".

14. In its lending operations, it is strongly recommended that AIF should apply certain basic criteria to all credits and other financial facilities along the following lines: (a) a country applying for financial assistance must demonstrate real need for balance-of-payments support; (b) it must have been a member of the AIF for at least six months before applying for such support; and (c) it must be up to date with its subscriptions to the Fund. Other conditions, specific to each form of financing facility, would also apply.

15. Four types of short-term financing facilities have been proposed, namely (i) Balance-of-payments Financing Facility (BFFF); (ii) Stand-by Financing Arrangements (SFA); (iii) Special Financial Arrangement for Intra-African Trade (SFAIT); and (iv) Special Food Financing Facility (SFFF). In addition to these Special Facility Funds have been proposed to meet needs arising from special circumstances such as drought, desertification and other natural disasters.

16. Because of the deep-rooted nature of the impacts of balance-of-payments deficits on Africa's economies, the study also proposes other facilities to assist member countries with "economic reformation" to correct imbalances of a medium or long-term nature. The medium and long-term facilities would focus on development financing oriented towards permanent solutions to balance-of-payments deficits and the related development problems.

D. Organizational Structure

17. It is proposed that the Fund should have the following organs:

- (i) A Board of Governors;
- (ii) A Board of Executive Directors, to oversee the day-to-day running of the institution;
- (iii) A Managing Director and a Deputy Managing Director; and
- (iv) A general secretariat.

18. The Board of Governors, on which all members would be represented, would be the highest decision-making body. It is proposed that Board of Executive Directors should have a total of twelve Executive Directors, of which three might be appointed by external subscribers if the Fund is open to external participation. In addition to the office of the Managing Director, which will also include a Legal Office, the following five departments are proposed: (i) a Department of Administration and Conference Services; (ii) a Department of Credit, Finance and Treasury; (iii) a Policy, Planning and Programmes Department; (iv) a Research and Statistics Department; and (v) a Department of Technical Assistance, co-operation and Human Resources Development.

E. Viability of the African Monetary Fund

19. A widely-debated issue is whether the proposed AMF can be a viable institution. This is discussed in Chapter VI. It must be understood that any discussion on the viability of such an institution can at the very best be speculative. However, on the basis of projections on inflows of member country subscription payments, incomes generated from Fund's own operations, investments and borrowing, it has been possible to draw general conclusions. The Fund's institutional viability has been examined on the assumption that its proposed lending facilities will be activated selectively as funds become available. The level of administrative expenditures incurred has also been taken into account.

20. The number of programmes implemented should depend both on the availability of resources and on the impact which each programme is likely to have on the economies of African countries. This study shows that the Fund can operate as a self-sustaining financial entity, and offer facilities that can really make a difference to its members' economic fortunes, with relatively modest injections of capital from each individual African country and no support from outside the region. In theory, therefore, it is proven viable. In practice its viability will depend on the political commitment of the African countries, which must be willing to subscribe their allotted portions of capital promptly. This is crucial, because as is the case with similar institutions, capital subscriptions are expected to be the major source of funding for a long time to come.

F. Co-operation with other institutions

21. From the analysis of the problems facing the African countries in the monetary and financial fields and the methods proposed for their solution, it is self-evident that co-operation between the proposed AMF and other institutions will be imperative. Chapter VII examines some of the areas where such co-operation would be useful. The Fund will need to establish functional and institutional relationships with other such institutions so as to avoid duplication of activities and wastage of resources. Common sense suggests that such co-operation may increase the level and quality of technical assistance and support which the Fund can offer to its member States, and hence its viability.

22. In brief, recent upheavals in the world monetary and financial system and the inability of present methods and policies to deal adequately with the African crisis have engendered a need for "economic reformation" on the African continent. Experience has shown that the African economic and social crisis cannot be easily resolved without the full involvement of the monetary and financial sector. Self-sustained economic growth through "economic reformation", the restoration of now-devastated agricultural and industrial production capacity and a solution to the continent's growing balance-of-payments problems can only come about under a stable monetary and financial regime, managed and monitored by Africa's own institution. Similarly, African economic recovery requires a sound regional monetary institution, capable of commanding the necessary confidence in the African countries and abroad.

through self-discipline and through the adoption of acceptable systems of international monetary and financial management. This, then, is the raison d'être for an African Monetary Fund.

III. MAJOR UNRESOLVED ISSUES

23. The second meeting of the Conference of African Ministers of Finance held in Libreville, Republic of Gabon, in June 1986, considered the recommendations of the experts from member States on the establishment of an African Monetary Fund. However, the following issues still remained unresolved:

- (a) capital of the African Monetary Fund; (i) the size of the initial authorized capital; and (ii) the currency in which subscriptions should be paid and whether part of such subscriptions should be paid in national currencies;
- (b) determination of the size of the Board of Executive Directors;
- (c) determination of eligibility for membership in the African Monetary Fund;
- (d) whether or not to allow external participation in the membership of the African Monetary Fund.

24. A ministerial committee called "The Committee of Libreville" was established to propose ways of resolving the above issues and of speeding up the establishment of the African Monetary Fund 2/. Its first meeting was held in Libreville from 31 March to 2 April 1987. While the Committee did not find solutions to all the issues, it endorsed the proposal put forward by the experts that the initial authorized capital should be fixed at 2 billion AUA (African Units of Account) 3/ of which 750 million AUA will be called and paid in during the first five years. Of that amount, 500 million AUA will be paid by Regional Members and 250 million by non-regional Members if they were allowed to participate in the capital of the Fund.

25. With regard to the size of membership of Board of Executive Directors, the Committee decided that the Board of Executive Directors should be composed of nine (9) Executive Directors of whom six (6) would represent regional members and three non-regional members. The Committee also decided that the Executive Directors should not reside at the headquarters of the Fund

2/ The Committee of Libreville is made up of Gabon, Tunisia, Sierra Leone, Uganda and Zambia. All other African countries are entitled to participate in its deliberations.

3/ 1 AUA = 1 SDR (Special Drawing Right of the International Monetary Fund).

and approved the method of electing Executive Directors as outlined in schedule B of the Draft Articles of Agreement of the African Monetary Fund.

26. The Committee of Libreville were unable to reach a decision on the following issues (a) regional membership in the Fund; (b) whether or not part of the subscription should be paid in national currencies and in what proportions; and (c) whether to open membership for non-regional participation.

27. Thereafter, an Extraordinary meeting of Governors of African Central Banks on the establishment of an African Monetary Fund was held at the African Development Bank headquarters in Abidjan (Côte d'Ivoire) on Saturday, 4 June 1988. The meeting was attended by more than 20 countries as well as representatives of the Central Bank of West African States (BCEAO) and the central bank of Central African States (BEAC). It was serviced by the joint secretariat (ECA, OAU, ADB and IDEP); the African Centre for Monetary Studies did not participate.

28. The representatives of the joint secretariat (ECA and IDEP) explained that the purpose of the meeting was to enable African governors, who were the competent authorities to discuss monetary issues, to look at the technical aspects of the outstanding issues namely capital subscriptions, size of authorized capital, size of the board of the executive directors, membership in the AMF as well as the need for non-regional participation. It was further explained that the governors were not required to take firm decisions but merely to make recommendations which would be passed to the ministers responsible for finance through the Committee of Libreville. The secretariat felt that this would assist in accelerating the process towards the establishment of the African Monetary Fund. As such there was no incompatibility between the governors deliberations and the jurisdiction of the Committee of Libreville.

29. Immediately following the introductory remarks by the secretariat, the Deputy Governor of BCEAO, (speaking on behalf of Mr. Fadiga, then Governor of BCEAO), raised objections to the holding of the meeting at that particular time. He argued passionately that central bank governors were not empowered and therefore had no authority to discuss the issues which were proposed for that meeting since these issues had already been referred to a ministerial committee (the Committee of Libreville) which was established by the Conference of African Ministers of Finance. He strongly held the view that the meeting should be postponed simpliciter until such time when authority was sought from the Minister of Gabon to hold the meeting. This view was supported by the representative of BEAC as well as a number of African governors especially from the francophone group.

30. One delegation, namely the governor of the Bank of Uganda, supported the ECA's view. He felt that as Governors of Central Banks, they had the mandate to discuss technical issues relating to money and finance and to recommend solutions to the ministers. He appealed to his colleagues to allow the meeting to continue.

31. The representative of BCEAO insisted that the meeting should be adjourned. After a lengthy exchange of views the meeting decided that (a) ECA secretariat should contact the Minister of Finance of Gabon and request him to authorize that governors of central banks should discuss the outstanding issues; (b) that following such authorization the Minister should contact the Chairman of the Association of African Central Banks with a view to reconvening the meeting; and (c) the next meeting of the governors of central banks on the establishment of an African Monetary Fund may be convened during the World Bank/IMF Annual Meetings to be held in West Berlin, Federal Republic of Germany, in October 1988 provided the Chairman of the Committee of Libreville would give instructions to that effect. However, this meeting could not take place, due to some unpredictable circumstances. It must be stated that after Abidjan's meeting, contact was duly made with Gabon's Minister of Finance on the above conclusions.

IV. THE AFRICAN MONETARY FUND WITHIN THE AFRICAN FRAMEWORK FOR STRUCTURAL ADJUSTMENT PROGRAMMES

32. It is widely acknowledged that African countries are making relentless efforts to ensure the resumption of growth in their respective economies. They have, in this respect, implemented structural adjustment programmes essentially designed by the International Monetary Fund and the World Bank. However, it has also been observed that despite the laudable efforts, the performance of the African economies remain unsatisfactory.

33. The first important lesson drawn from the above experiences with structural adjustment programmes relates to the inability of African countries to protect their economies from the unfavourable international economic and monetary environment.

34. The second lesson, not less important, stems from that African countries do not often have adequate information to negotiate with the International Monetary Fund and World Bank.

35. As specified in objective 5 of the African Monetary Fund ^{4/} the success of monetary policy in effecting structural adjustments depends on the level of monetization of the economy and on the existence of highly developed capital and money markets. However, the weakness justifies the need to establish the African Monetary Fund.

^{4/} See Technical Feasibility Study, op. cit. pages 49-51. "To assist member States in instituting appropriate long-term economic reformation and stabilization programmes, especially geared to deal with the African socio-economic crisis arising from long-term effects on balance-of-payments problems and especially geared to capital mobilization and a more national of development resources."

36. One may suggest in this respect that it is crucial for African countries to prepare themselves through sound analysis of packages proposed or submitted by the Bretton Wood institutions in terms of the impact of those programmes on the economy at large and more specifically on the key sectors, such as the rural sector which comprises more than 80 to 90 per cent of population.

37. African Monetary Fund, once established, could aptly perform such duties by assisting African countries, as appropriate, in their preparations to approach IMF and the World Bank for an adjustment programme.

V. PROPOSED MEASURES TO SPEED UP THE ESTABLISHMENT OF THE AFRICAN MONETARY FUND

A. The Need for Urgent Action

38. The need for the establishment of an African Monetary Fund has become more urgent during the past five years for the following reasons:

(a) During the past eight years, the African economic, monetary and financial environment has deteriorated into a crisis which threatens the very foundations of economic growth and development. Domestic incomes and savings as well as private foreign investment in many African countries are too low to support viable economic activities. Moreover, inflation and balance of payments deficits have become chronic and make it difficult to implement appropriate monetary policy;

(b) There is recognition that without adequate solutions to the debt service crisis many African countries would continue to face increasing difficulties in implementing structural adjustments. At the end of 1987, Africa owed over US\$220 billion with an annual debt service obligation of about US\$30 billion. Estimates indicate a growth of 15% in 1988. The external debt service obligations of African countries continue to grow at the rate that cannot be sustained by the existing financial resources. Moreover, resources are being diverted from development and growth-oriented projects and programmes to meet the debt service obligations. Recently, at the 1988 Annual meetings of the Boards of governors of the World Bank and the IMF held in Berlin from 25-29 September 1988, a number of industrial countries announced specific debt relief for the poorest countries as a follow-up of the decisions taken at the Toronto Summit on a case-by-case basis. However, it cannot be overemphasized that African monetary Fund would be in a much stronger position to attract resources to contribute to the international balance-of-payments support mechanism which would alleviate in the long run the actual trends of external debt service obligations burden.

(c) Since the early 1980's, the African monetary and financial indicators show continued volatility of the international monetary system as evidenced by the following characteristics: (i) exchange rate fluctuations of major "hard" currencies especially the US dollar vis-à-vis the other currencies in which international trade is denominated; (ii) real interest rates still remain very high; (iii) international economic recession which was accompanied by the collapse in commodity prices and the decline in export earnings affects African countries more adversely than the rest of the world; (iv) there is a decline in resource inflows into Africa, especially on concessional terms. This is aggravated by significant outflows of capital and other resources from Africa through principally the activities of transnational corporations and their transnational banks; (v) IMF adjustment programmes which entail the adoption of policies and measures have invariably proved to be deflationary by nature and had contractionary effects on national incomes partly due to the non-flexibility of the monetary attached to the access of IMF's resources.

(d) There is a consensus emerging that the African monetary policies need the full backing and support of a strong and autonomous institution. The African Monetary Fund if established could therefore provide the means for African countries to deal more effectively with the current monetary and financial crisis.

3. Proposed solutions to unresolved issues

39. Since the second meeting of the Conference of African Ministers of Finance on the Establishment of an African Monetary Fund held in June 1985, consultations with African monetary authorities have continued so as to find mutually acceptable solutions to the outstanding issues. Based on these consultations there is a consensus emerging that the African Monetary Fund should be established without further delay. African Ministers of Finance should agree to resolve the issues listed below with the spirit of understanding and cooperation. The following proposals have been made as a basis for discussion and decision:

Authorized Capital of the Fund

40. The feasibility study proposed an initial authorized capital of 2 billion AUA. However, since early 1985, when the recommendation was made, considerable changes have taken place in the economic and financial situations of the African countries. Domestic monetary and financial structures find it increasingly difficult to mobilize adequate resources for balance-of-payments support. There is now evidence to support the view that the proposed amount of authorized capital cannot be adequate to effectively support balance-of-payments shortfalls arising out of medium and long-term structural problems. Moreover, recent experiences in the ADB and the World Bank have demonstrated that issues of General Capital Increases are generally very sensitive and difficult to resolve once members have agreed on a given amount. Therefore, serious consideration should be given to fixing the initial authorized

capital" at 5 billion AUA with the understanding that the "called-up" capital could be decided at low percentages each time as and when desired. This is to avoid the problem of envisaging a general capital increase within a period of less than ten years.

(b) Payments of subscriptions

41. It is proposed that payments of subscriptions should be paid in AUA only (or convertible currency) and that no portion of such subscriptions should be paid in national currencies. Experience in similar institutions shows evidence of tremendous difficulties in the use of national currencies for Fund operations.

(c) Size of the Board of Executive Directors

42. The Committee of Libreville proposed that the Board of Executive Directors should consist of nine (9) Executive Directors and nine (9) Alternate Executive Directors. Out of this, if non-regional participation is allowed, three (3) Executive Directors and three (3) Alternate Executive Directors could be elected from non-regional members.

(d) Membership in the African Monetary Fund

43. It is proposed that the "original members" of the African Monetary Fund should be those African States who are members of the African Development Bank and whose governments have become parties to the Agreement establishing the African Monetary Fund.

44. A State which is not an original member may become a member upon accession to the Agreements Establishing the African Monetary Fund and on terms and conditions that may be stipulated by the original members.

(e) Non-Regional Membership

45. Based on the experience of the African Development Bank Group, it is proposed that membership in the African Monetary Fund should be open to non-regional participation on terms and conditions to be agreed by its members. There is ample evidence to suggest that non-regional participation would strengthen the capital base of the African Monetary Fund and would facilitate negotiations for raising funds from the developed countries and their national and international banking and financial institutions.

C. Follow-up Action

46. On the basis of the foregoing, it is proposed that African countries should consider adopting the following measures to speed-up the establishment of the African Monetary Fund:

- (a) A Contact Group made up of Governors of Central Banks to replace the Committee of Libreville, should immediately be established to look at the technical aspects of the outstanding issues (1)

speeding up the preparations for the establishment of the African Monetary Fund, and (ii) review necessary contacts at appropriate levels, with emphasis on the relationship for finance as well as financial and monetary institutions both within and outside Africa. The members of the Contact Group should be made up of the current chairman of the Association of African Central Banks (and his alternate), the Chairman of the subregional Associations of African Central Banks, the Governors of MAC and BTA, and the Executive Secretaries of WACH, CACH and the African Development Bank. The Contact Group would be serviced by the Joint secretariat (ECLA, ECU, AFR, AFS and IDEP).

- (b) Consultations should be held regularly among Governors of African Central Banks through the subregional Associations of African Central Banks to review the monetary and financial aspects with a view to speeding up the establishment of the African Monetary Fund; such consultations should also involve the Governors of the Central Bank of Central African States (Banque centrale des Etats de l'Afrique de l'Ouest) and the West African Clearing House; the Central African Clearing House; and the EC Payments and Clearing House.
- (c) The report of the Working Group should be submitted to the next meeting of Governors of African Central Banks. To this end, the Central Bank Governors would constitute a body to provide technical support and advisory services to the meeting of the Committee in Libreville and would report back to the next conference of African Ministers of Finance on the establishment of the African Monetary Fund.
- (d) The Joint secretariat (ECLA, ECU, AFR, AFS and IDEP) should review the feasibility study taking into account recent developments in the financial and monetary fields at the subregional, regional and international levels, including external debt and the outflow of resources from Africa. Where significant changes have occurred, new and more detailed proposals should be made in the structure and operations of the proposed fund to be submitted to Central Bank Governors through the Contact Group. This body would then refer it to the Ministers for adoption.